

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE  
AND THE ANNUAL MEETING OF THE COMMISSIONERS  
HELD ON JULY 27 AND 28, 2004

Pursuant to the call of the Chairman and notice duly given, the meeting of the Committee of the Whole and the annual meeting of the Commissioners of the Virginia Housing Development Authority (the "Authority") were held on July 27 and 28, 2004, at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

Douglas R. Fahl, Chairman  
Jay Fisette, Vice Chairman  
Joan D. Gifford  
Terri M. Ceaser  
Jody M. Wagner  
William C. Shelton  
John P. McCann  
Edward L. McCoy  
Charles McConnell  
Gerald W. Hopkins

COMMISSIONER ABSENT:

Jack Loeb, Jr.

OTHERS PRESENT:

Susan F. Dewey, Executive Director  
Donald L. Ritenour, Managing Director of Development  
Thomas A. Dolce, Managing Director of Servicing and Compliance  
Arthur N. Bowen, Managing Director of Finance and Administration  
Ronald A. Reger, Managing Director of Information Services  
Tammy N. Taylor, Managing Director of Human Resources  
Russ E. Wyatt, General Auditor  
Brenda K. Goodman, Managing Director of Public Policy  
J. Judson McKellar, Jr., General Counsel  
John F. Hastings, Director of Multi-Family Development Programs  
Michele G. Watson, Director of Homeownership Programs  
Tammy A. Tyler, Strategic Development Leader  
Patrick Corey, Loan Administration Manager  
Pamela Holmes, Loan Servicing Supervisor  
Sandy DelMonaco, Default Administration Manager  
Michelle Jackson, Executive Assistant

Richard B. Taylor, Governmental Relations Manager  
Ankit Kothari, Intern  
Lauren Mohlie, Intern  
Lauren Putnocky, Intern  
Marquita Carden, Intern

Vice Chairman Fisette called the meeting of the Committee of the Whole to order at 3:05 p.m. on July 27, 2004. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee, except Commissioners Wagner and McCoy who joined the meeting of the Committee in progress as noted below and thereafter remained present during the meeting of the Committee. Vice Chairman Fisette welcomed Commissioners McConnell and Hopkins to the Board.

Mr. Dolce, Mr. Corey, Ms. Holmes and Ms. DelMonaco presented a report on the servicing of single family mortgage loans, including the following matters: the organization and staffing of the Single Family Servicing Department; the number and dollar amount of loans serviced by the Authority and by other lenders; options for remitting mortgage loan payments; the Authority's records management practices; the benefits to the customers and to the Authority of direct servicing; the process for new loan set-up; the Authority's customer service activities; the administration of escrows for taxes, hazard insurance premiums and mortgage insurance premiums; the process for loan payoffs and assumptions; loan balances by type of mortgage insurance; the Authority's collection process; the Authority's loss mitigation activities; the number of direct service loans that are delinquent, in loss mitigation and in foreclosure; the Authority's loss mitigation programs; the foreclosure and bankruptcy process; payments on foreclosure claims; default administration challenges; the status of the real estate owned portfolio; the number and dollar amount of loans in the loan servicing portfolio since fiscal year 2003; the average delinquency and foreclosure rates since June 2003; and the delinquency rates by loan product type. During this report, Commissioners Wagner and McCoy joined the meeting.

Ms. Dewey, Mr. Bowen, Mr. Ritenour, Mr. Dolce and Ms. Goodman presented a video summarizing the Authority's principal accomplishments during fiscal year 2003-2004. Ms. Dewey reviewed the Authority's current challenges, including the reduction in the single family loan portfolio due to high levels of prepayments, the rising prices of single family homes, the unavailability of sites for multi-family developments, and the need for minority outreach. Ms. Dewey next advised the Commissioners of a proposed single family loan program in which the loans would be payable as an interest only loans for 7 years and would be fully amortizing over the remaining 23 years of the loan term. Ms. Dewey noted that the interest rate would be fixed for the full term of the loans, that the loans would not be insured by mortgage insurance, that the maximum loan-to-value ratio would be 100%, and that the loans would be financed with the proceeds of tax-exempt bonds. The Commissioners then discussed the benefits and risks of the proposed program. Upon the conclusion of this discussion, it was the consensus of the Commissioners that the Authority should proceed with the implementation of the program. The Commissioners next discussed various issues confronting the Authority, including the barriers and delays in achieving minority outreach, challenges in financing affordable housing for

persons with disabilities, the scarcity of sites for multi-family developments, the decline in the affordability of single family housing, the need for a single family loan program to address the needs of existing homeowners in rural areas, concerns of local governments about concentrations of low income housing in their jurisdictions, the ability of non-profits to acquire sites for multi-family housing, the initiation of the mixed income, mixed use program, and the efforts to encourage green building.

There being no further business, the meeting of the Committee of the Whole was adjourned at approximately 5:45 p.m.

Vice Chairman Fisette called the annual meeting of the Board of Commissioners to order at approximately 11:35 a.m. on July 28, 2004. All of the Commissioners listed above as being present at the meeting were present at that time and remained present throughout the meeting, except Commissioner McCann was not present during the meeting.

Ms. Dewey introduced the Authority's interns to the Commissioners and expressed appreciation for their services to the Authority.

Commissioner Gifford, on behalf of the Executive Committee, reported that the Committee recommended the nominations of Commissioner Fahl for Chairman and Commissioner Fisette for Vice Chairman. Vice Chairman Fisette declared the floor open for nominations for Chairman. Commissioner Gifford nominated Commissioner Fahl for the Chairman, and the nomination was seconded by Commissioner Wagner. There being no further nominations, the floor was closed. Commissioner Fahl was then elected Chairman by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Chairman Fahl then assumed the chair and declared the floor open for nominations for Vice Chairman. Commissioner Gifford nominated Commissioner Fisette for the Vice Chairman, and the nomination was seconded by Commissioner Ceasar. There being no further nominations, the floor was closed. Commissioner Fisette was then elected Vice Chairman by the affirmative vote of each of the Commissioners noted above as then present at the meeting.

No members of the public requested an opportunity to make any comments during the public comment period of the meeting.

Commissioner Gifford moved approval of the minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on May 17 and 18, 2004. This motion was seconded by Vice Chairman Fisette and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting.

Mr. Bowen presented a report on the Authority's unaudited financial statements for the periods ended April 30, 2004 and May 31, 2004.

Mr. McKellar then presented a resolution that would amend the Authority's Bylaws by limiting the terms of any Chairman to two consecutive terms. Commissioner Gifford moved approval of the resolution entitled "Resolution- Amendment of Bylaws" dated July 28, 2004, in

the form attached hereto. This motion was seconded by Commissioner Hopkins and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Following this action, Chairman Fahl noted that the summary of the Committees of the Board of Commissioners was included in the materials distributed to the Commissioners for the meeting.

Ms. Dewey presented a resolution to establish the dates of the regular meetings of the Board of Commissioners for fiscal year 2004-2005. Commissioner Hopkins then moved approval of the resolution entitled "Resolution Establishing Regular Meeting Dates of the Board of Commissioners through July 31, 2005" dated July 28, 2004 in the form attached hereto. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting.

Ms. Dewey presented resolutions recognizing the contributions and service of Commissioner Krum and Commissioner Avery-Hargrove. Vice Chairman Fisette moved approval of the resolutions entitled "Resolution of Recognition and Appreciation of Charles L. Krum, Jr." and "Resolution of Recognition and Appreciation of J. Cheryl J. Avery-Hargrove" dated July 28, 2004, in the forms attached hereto. This motion was seconded by Commissioner McConnell and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting.

Ms. Dewey reported that the Committee of the Whole received and discussed a report by Mr. Dolce and members of his staff on the servicing of the Authority's single family mortgage loans, viewed a video summarizing the Authority's principal accomplishments during fiscal year 2003-2004, and discussed the Authority's organizational performance for fiscal year 2003-2004 and the Authority's current challenges and issues.

Vice Chairman Fisette, on behalf of the Executive Committee, reported that the Committee recommended the nominations for Chairman and Vice Chairman as previously stated at the meeting and that the Committee discussed the Authority's compensation policy and recent practices with respect to merit increases and bonuses. Vice Chairman Fisette further reported that the Committee reviewed the process for Ms. Dewey's performance evaluation and noted that information packets for her evaluation were distributed at the meeting to the Commissioners who served during fiscal year 2003-2004 and will be distributed by mail to Commissioner Krum and Commissioner Avery-Hargrove. Vice Chairman Fisette advised the Commissioners that the information packets must be completed and returned to Ms. Taylor by August 12<sup>th</sup> and will be considered by the Executive Committee in Ms. Dewey's performance evaluation at its September meeting.

Commissioner Gifford, on behalf of the Programs Committee, reported that the Committee authorized the staff to issue a binding commitment for the reservation of 2005 federal low income housing tax credits for the development known as Park View at South Pantops. Commissioner Gifford further reported that, after receiving and discussing a staff report on the final rankings of the applications for allocations of the federal low-income housing tax credits for 2004, the Committee recommended approval of the proposed resolution to approve and ratify

the reservations of tax credits by the Authority. Commissioner Gifford then moved approval of the resolution entitled "Resolution Approving and Ratifying Reservations of Federal Low-Income Housing Tax Credits" dated July 28, 2004, in the form attached hereto. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Commissioner Gifford next reported that the Committee had received a staff report on the calculation of the amount of federal low-income housing tax credits in the pools for the geographic areas in the Qualified Allocation Plan. Commissioner Gifford reported that the Committee had received staff reports on homeownership and multi-family loan production and delinquencies and on the Housing Choice Voucher Program and that the Committee had discussed proposed mortgage loans to finance three mixed income, mixed use developments and had advised the staff to proceed with the financing of such developments. Commissioner Gifford reported that the Committee had received a staff report on the annual SEMAP Certification for the Section 8 Housing Choice Voucher Program and recommended approval of the resolution to authorize the Chairman and Executive Director to execute such Certification. Commissioner Gifford then moved approval of the resolution entitled "Resolution Approving Section 8 Management Assessment Program Certification" dated July 28, 2004 in the form attached hereto. This motion was seconded by Vice Chairman Fissette and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Commissioner Gifford next reported that the Committee received a staff report and recommendations on the proposed contribution of \$54,000,000 to the Virginia Housing Fund for fiscal year 2004-2005 and the proposed allocations of such contribution and that the Committee recommended approval of such proposed contribution and allocations. Commissioner Gifford then moved approval of the \$54,000,000 contribution to the Virginia Housing Fund for fiscal year 2004-2005 and the allocations of such contribution as set forth in the memorandum from Mr. Ritenour to the Board of Commissioners dated July 16, 2004 and attached hereto. This motion was seconded by Vice Chairman Fissette and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Commissioner Gifford reported that the Committee recommended approval of a line of credit in the amount of \$1,000,000 to the Federation of Appalachian Housing Enterprises, Inc. Commissioner Gifford moved approval of the resolution entitled "Resolution Authorizing a Mortgage Loan to Finance Federation of Appalachian Housing Enterprises, Inc.," dated July 28, 2004, in the form attached hereto. This motion was seconded by Vice Chairman Fissette and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Commissioner Gifford reported that the Committee had received a staff report and recommendations on the eligibility requirements for the multi-family SPARC and HIP Programs and that the Committee recommended that the eligibility requirements for the multi-family SPARC and HIP Programs set forth in the "Proposed SPARC and HIP Program Eligibility Requirements" attached hereto be approved, subject to such revisions as the Authority staff shall deem appropriate after consultation with the staff of the Department of Housing and Community Development and provided that the Authority staff shall advise the Commissioners of any such revisions at the next meeting of the Commissioners thereafter. This motion was seconded by Vice Chairman Fissette and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting. Commissioner Gifford reported that the Committee had received and discussed a report from the staff on the Authority's single family minority outreach efforts, including the

proposed expansion of the Genesis project to the entire state, the challenges in conducting outreach to the Hispanic community, and the status of outreach to the Asian community.

Chairman Fahl, on behalf of the Audit/Operations Committee, reported that the Committee had received and discussed reports from the General Auditor on the status of the internal audit schedule, the outstanding audit recommendations, the audit reports, and the audit website. Chairman Fahl reported that the Committee had received and discussed a report from Mr. Bowen on the salient features of the Authority's proposed Rental Housing Bonds, 2004 Series I-Taxable, J-AMT and K, and Commonwealth Mortgage Bonds, 2004 Series C-AMT and D. Commissioner Fahl next reported that the Committee had received an update from the Authority staff on the status of its review of the retiree health care plan and that the Committee had discussed the bonus pool for the Authority staff for fiscal year 2003-2004 and recommended that the amount of \$810,000 be approved for such bonus pool. The Commissioners then discussed the purpose of the bonus pool and the means for establishing and administering the amount to be approved therefor. Following this discussion, Commissioner Fahl moved that the amount of \$810,000 be approved for funding of the bonus pool for fiscal year 2003-2004, with such amount to be paid from fiscal year 2003-2004 net revenue. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting.

Ms. Dewey presented her report of operations in which she advised the Commissioners as to the following matters: the focus groups for the internal survey had been held, and Palmer & Cay was preparing a report on the results of such focus groups; the results of the external survey were given to the Authority's advisory groups which had provided feedback and suggestions at their meetings with the Authority; the Housing Virginia Campaign was scheduled to be launched on August 12<sup>th</sup> in Charlottesville; Standard & Poor's Ratings Service increased its rating on the Commonwealth Mortgage Bonds to AAA; and a fair housing complaint had been filed by a tenant in Old Mill Apartments in Lynchburg. In this report, Ms. Dewey advised the Commissioners that the Authority staff has been considering legislation to extend the December 31, 2005, expiration date of the state rent reduction tax credit program. Following a discussion of this program, the Commissioners requested the Authority staff to consider alternatives that would avoid adverse consequences to the tenants. Ms. Dewey then advised the Commissioners as to upcoming housing events, meetings and conferences.

Chairman Fahl stated that he had appointed Commissioner Gifford as Chairman of the Programs Committee and Commissioner McCann as Chairman of the Audit/Operations Committee. He requested that Commissioners who have a preference for appointment to either the Programs Committee or the Audit/Operations Committee should so advise him or Susan but noted that it may not be possible to make all of the preferred appointments.

There being no further business, the meeting was adjourned at approximately 1:02 p.m.

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Chairman

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J. Judson McKellar, Jr.  
Assistant Secretary

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE HELD ON JULY 28, 2004

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Executive Committee of the Board of Commissioners of the Virginia Housing Development Authority (the "Authority") was held on July 28, 2004, at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

### COMMITTEE MEMBERS PRESENT:

Jay Fisette  
Joan D. Gifford  
Douglas R. Fahl

### OTHERS PRESENT:

Susan F. Dewey, Executive Director  
Tammy N. Taylor, Managing Director of Human Resources  
J. Judson McKellar, Jr., General Counsel

Commissioner Fisette called the meeting of the Committee to order at approximately 9:00 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting.

Commissioner Fahl moved approval of the minutes of the meeting of the Committee held on May 18, 2004. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners noted above as then present at the meeting.

The members of the Committee discussed the process for nominating the Chairman and Vice Chairman of the Board of Commissioners. Following this discussion, Commissioner Gifford stated that Commissioner Fahl had indicated his interest in serving as Chairman and that Commissioner Fisette had indicated his interest in serving as Vice Chairman. Commissioner Gifford advised the members of the Committee that no other Commissioner had notified the Committee of an interest in serving as Chairman or Vice Chairman. It was the consensus of the Committee to recommend the nomination of Commissioner Fahl for the office of Chairman and to recommend the nomination of Commissioner Fisette for the office of Vice Chairman.

The members of the Committee reviewed the process for the performance evaluation of Ms. Dewey for fiscal year 2003-2004. Ms. Dewey advised the members of the Committee that information packets for her evaluation would be distributed to the Commissioners who served during fiscal year 2003-2004 and that these packets would be completed by those

Commissioners and made available to the members of the Committee prior to its September meeting. Ms. Dewey also noted that her current employment contract will expire on June 30, 2005 and that the Committee may wish to consider extension of that contract at its September meeting. The members of the Committee requested that Ms. Dewey, Ms. Taylor and Mr. McKellar review the employment contract for any appropriate revisions and distribute copies of the employment contract to the members of the Committee prior to its September meeting.

The members of the Committee then reviewed the percentages approved by the Board for merit increases and bonuses for the Authority staff in recent years and discussed the Authority's compensation policy.

There being no further business, the meeting was adjourned at approximately 9:35 a.m.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE

ON JULY 28, 2004

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Programs Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on July 28, 2004, at the Virginia Housing Center, 601 South Belvidere Street, Richmond Virginia.

COMMITTEE MEMBERS PRESENT:

Joan D. Gifford, Committee Chairman  
Terri M. Ceaser  
William C. Shelton  
Jay Fisette  
Charlie O'Connell

COMMITTEE MEMBER ABSENT:

Jack Loeb, Jr.

OTHERS COMMISSIONERS PRESENT:

Doug Fahl  
Jody Wagner  
Edward McCoy  
Jerry Hopkins

OTHERS PRESENT:

Susan F. Dewey, Executive Director  
Donald L. Ritenour, Managing Director of Development  
J. Judson McKellar, Jr., General Counsel  
Thomas A. Dolce, Managing Director of Servicing and Compliance  
John F. Hastings, Assistant Director of Multi-Family Development  
Jim Chandler, Director of Low Income Housing Tax Credits  
Sharon Fairburn, Director of Housing Choice Voucher  
Paul Brennan, Deputy General Counsel  
Russ E. Wyatt, General Auditor  
Arthur N. Bowen, Managing Director of Finance and Administration  
Paula D. Schuler, Housing Initiatives Associate Officer  
Brenda K. Goodman, Managing Director of Public Policy  
Michelle G. Watson, Director of Homeownership Programs  
Robert Halloran, Marketing Director  
Frank M. Curbeira, Contact Center Manager

Tammy A. Tyler, Strategic Development Leader  
Tammy N. Taylor, Managing Director of Human Resources  
Ronald A. Reger, Managing Director of Information Services

VISITORS PRESENT:

Ron White, Albemarle County  
Amon Martin, Shelter Management  
Ben Walter, Jefferson Area Board for Aging

The meeting of the Committee was called to order by Commissioner Gifford at approximately 9:20 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time.

Commissioner Shelton moved approval of the minutes of the meeting of the Committee held on May 18th. This motion was seconded by Commissioner Ceaser and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Commissioner Gifford recognized the visitors and invited them to address the Committee. Mr. Ron White of Albemarle County, Mr. Amon Martin of Shelter Management and Mr. Ben Walter of JABA gave testimonials to the Committee, demonstrating their support for Park View at South Pantops in Albemarle County – a 90 unit elderly development seeking a 2004 Tax Credit Reservation.

Mr. Ritenour presented the staff recommendation to fund the aforementioned development with a reservation of federal low income housing tax credits in the amount of \$566,491 annually. Commissioner Fisette moved approval of the staff recommendation. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

At this point Commissioners Fahl, Wagner, McCoy and Hopkins left the meeting.

Mr. Chandler presented a Resolution for the final approval of Federal Low Income Tax Credit Allocations for fiscal year 2004. There was a brief discussion on the mechanics of the rankings. There was unanimous agreement by the Committee to recommend Board approval of the resolution entitled “Resolution Approving and Ratifying Reservations of Federal Low-Income Housing Tax Credits”.

Mr. Chandler presented a report on the methodology for calculating the amount of the tax credits allocated to each of the geographic pools in the Federal Low Income Housing Tax Credit Qualified Allocation Plan. There was a discussion around the data used and if it is the best or most current source. Commissioner Fisette requested staff to study alternatives to account for the differences in construction costs among the geographic pools.

Ms. Watson presented a report on the Homeownership production summary. There was a brief testimonial of how the Flex 104 product has helped reach markets that had previously been out of reach.

Mr. Hastings presented a report on the Rental Housing Loan production summary. A special overview on 500 Granby Street was given as the first Mixed Income / Mixed Use development seeking Board approval. There was discussion and general approval that 500 Granby Street is an example of a model to replicate and that staff should proceed with a minimum of 3 pilot mixed income mixed use developments.

Mr. Dolce presented a report on multi-family and single-family loan servicing delinquencies. He reported single-family delinquencies against national averages.

Ms. Fairburn reported that the HCV program continues to be at 98% leasing. Ms. Fairburn also updated the Committee on HUD's HCV funding status for FY04 and proposed status for FY05. Ms. Fairburn then advised of the Boards need to approve the Annual SEMAP Certification. There was unanimous agreement by the Committee to recommend Board approval of the resolution entitled "Resolution Approving Section 8 Management Assessment Program Certification".

Mr. Ritenour presented a report and requested approval of a contribution of \$54,000,000 to the Virginia Housing Fund for fiscal year 2004-2005 and the proposed allocations of such contributions. There was unanimous agreement by the Committee to recommend Board approval of these allocations.

Mr. Ritenour presented a request for approval for a line of credit in the amount of \$1,000,000 to the Federation of Appalachian Housing Enterprises, Inc. There was unanimous agreement by the Committee to recommend Board approval of the "Resolution Authorizing a Mortgage Loan to Finance Federation of Appalachian Housing Enterprises, Inc."

Mr. Ritenour presented a request for approval for Multi-family SPARC and HIP Program Eligibility requirements. There was some discussion around the licensing requirement for the Homeless. There was unanimous agreement by the Committee to recommend Board approval of the Multi-family SPARC and HIP Program Eligibility requirements, subject to such revisions as the Authority staff shall deem appropriate after consultation with the staff of the Department of Housing and Community Development and provided that the Authority staff shall advise the Commissioners of any such revisions at the next meeting of the Commissioners thereafter.

Ms. Watson presented a report on the single-family minority outreach efforts. Some discussion took place in reference to proposed expansion of the Genesis project, the challenges in conducting outreach to the Hispanic community and the efforts with the Asian community.

There being no further business, the meeting was adjourned at approximately 11:30 a.m.

## Minutes of the Meeting of the Audit/Operations Committee Held on July 28, 2004

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on July 28, 2004 at the offices of the Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, Virginia.

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**Committee Members Present** Douglas R. Fahl  
Jody M. Wagner  
Edward L. McCoy  
Gerald W. Hopkins

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**Others Present** Arthur N. Bowen, III, Managing Director of Finance & Administration  
Ronald A. Reger, Managing Director of Information Services  
Tammy N. Taylor, Managing Director of Human Resources  
Russ E. Wyatt, General Auditor  
Michelle Edmonds, Sr. Executive Assistant

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**Meeting Called to Order** The meeting was called to order at 10:10 a.m. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Jody Wagner who left the meeting in progress at 10:50 a.m., returned at 11:13 a.m. and thereafter remained present during the meeting.

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**Approval of Minutes** Commissioner Wagner moved approval of the minutes of the meeting of the Audit/Operations Committee held on May 18, 2004. Commissioner Fahl seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

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**Internal Audit Presentation** The General Auditor reported on the status of the audit schedule. The General Auditor reported that the Audit Division is behind schedule due in part to uncontrollable issues, such as the resignation of one staff auditor and the time required for recruiting and training the new associate, and due in part to controllable issues such as process and auditor inefficiency. The General Auditor indicated that he has made certain modifications to the audit process designed to improve efficiency and he is hopeful that these changes will have a positive effect on the schedule going forward.

The General Auditor also reported on outstanding audit recommendations that have not yet been fully addressed by management. This report included only one issue involving Audit's recommendation to rewrite the retiree healthcare plan. Tammy

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**Internal Audit  
Presentation**  
(cont'd)

Taylor, Managing Director of Human Resources, reported on the status of this project indicating that the basic approach has been determined and VHDA's next step is to have some actuarial studies performed to determine cost variations associated with using various plan criteria.

The General Auditor also reported on the audits completed since the last meeting, which included: 1) SF Default and REO Administration and 2) SF Compliance Department. The reports for these departments were considered "clean," which indicates that the degree of compliance with existing practices and procedures and the quality of ongoing operations was found to be satisfactory. The General Auditor reported that operational deficiencies identified in these areas were considered of minor significance and Audit was advised that corrective action would be taken where appropriate. The General Auditor indicated that no adverse reports were issued in the time period covered by this report.

In addition, the General Auditor reported that the Audit Division has developed and implemented a homepage on VHDA's Intranet that, among other things, provides VHDA associates with a mechanism to anonymously report fraud, waste and abuse issues.

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**Salient  
Features**

Art Bowen, Managing Director of Finance & Administration reviewed salient features for one upcoming Rental Housing Bond issue, 2004 Series I-Taxable, J-AMT and K and one upcoming Commonwealth Mortgage Bond issue, 2004 Series C-AMT and D. The Rental Housing Bond issue will be sold competitively in September or October, will be up to \$135 million, and will be a combination of tax-exempt and taxable bonds, and may include a refunding component. The Rental Housing Bonds are anticipated to receive an Aa1 rating for Moody's and an AA+ rating from S&P. The Commonwealth Mortgage Bond issue will be sold competitively in September or October, will be up to \$200 million, and will consist of tax-exempt bonds. These bonds are anticipated to receive an Aaa rating from Moody's and we received notification today that S&P will rate these bonds at AAA+.

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**HR Update**

Tammy Taylor, Managing Director of Human Resources, reviewed for the Committee VHDA's compensation philosophy as revised by the Board in March 2004 that allows for bonuses; however, funding for bonuses is not included in the budget. Due to state reporting deadlines, the decision to award bonuses based in any way on FY 2004 performance must be made in July so that VHDA's financial statements can be finalized, audited and presented to the state prior to its September

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**HR Update**  
(cont'd)

30 deadline. After discussion among the Committee members, the Committee recommended a bonus pool of not greater than \$810,000 for VHDA staff for fiscal year 2003-2004, to be paid from fiscal year 2004 net revenue. Following this discussion, Commissioner Hopkins moved that the Committee recommend approval of a bonus pool (amount not to exceed \$810,000) for FY 2003-2004, to be paid from fiscal year 2004 net revenue. This motion was seconded by Commissioner McCoy. This motion was approved by the affirmative vote of each of the members of the Committee then present at the meeting. The Commissioners then discussed the purpose of the bonus pool and the means for establishing and administering the amount to be approved therefore.

Ms. Taylor distributed a white paper on the current analysis of the Retiree Healthcare Plan. The Retiree Healthcare Team has reached preliminary consensus on the need for continuing with an equitable approach. They are working to firm up various scenarios and run actuarial studies to support plan criteria that is fiscally responsible. It was decided that an outline of the plan of action will be reported to the Committee of the Whole at the September meeting. Tammy will provide this information to the Commissioners in advance of the meeting to include comparisons, background and results of actuarial studies. Implementation of the revised Retiree Healthcare Philosophy is planned for 2005.

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**Adjournment**

There being no further business, Commissioner Fahl adjourned the meeting at 11:20 a.m.

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Arthur N. Bowen, III  
Managing Director of Finance &  
Administration

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Douglas R. Fahl  
Chairman